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ASIA MARKETS

Hong Kong Regulator Targets Short Seller

Securities and Futures Commission Begins Legal Action Against Citron Research Head



Hong Kong's Securities and Futures Commission has begun its legal first action against a short seller. *BLOOMBERG NEWS*

By **ENDA CURRAN**

Dec. 23, 2014 5:53 a.m. ET

HONG KONG—Hong Kong's securities regulator has begun its first legal action against a short seller, targeting the head of a U.S.-based research firm for issuing a report on Chinese property developer Evergrande Real Estate Group Ltd. that the watchdog says was false and misleading.

In a rare instance of a regulator targeting a short seller in a developed market, the Securities and Futures Commission said in a filing that a June 2012 report by Citron Research triggered a slump in Hong Kong-listed Evergrande's share price, allowing the head of the research firm to make a profit. In short selling, an investor sells borrowed shares in hopes of buying them back later at a lower price, pocketing the difference.

The SFC alleges that the report included "false and misleading" information about Evergrande, such as allegations that the Chinese real-estate firm was insolvent, in a report that gathered widespread attention at the time from investors, banks and media.

The SFC said it will pursue Andrew Left, the head of Citron Research—known for publishing harsh views on stocks—through Hong Kong’s Market Misconduct Tribunal on allegations of market misconduct for publishing the report on Evergrande. The Market Misconduct Tribunal is an independent body headed by a present or former High Court judge and overseeing allegations ranging from insider dealing to price rigging.

An email seeking comment from Citron was responded to by Mr. Left, who declined to comment. Evergrande couldn’t immediately be reached for comment.

Asia has been hit by a flurry of short selling in recent years, but this is the first instance in which Hong Kong’s regulators have acted against an activist short seller.

On June 21, 2012, the day Citron’s report was released, Evergrande’s share price reached a high of 4.52 Hong Kong dollars (58 U.S. cents) before slumping to HK\$3.60. It closed the day at HK\$3.97, down 11.4% from the previous day’s closing price. In contrast, the Hang Seng Index ended down 1.3% that day. Since the Citron report, Evergrande’s share price has fallen by more than a fifth to a close of HK\$3.08 Tuesday.

The SFC alleges that shortly before the report’s release, Mr. Left short sold 4.1 million shares of Evergrande, which he bought back to make a total realized profit of HK\$1.7 million.

Building a case against Mr. Left may be difficult given that skeptical questioning of companies and taking short positions is legitimate market conduct in Hong Kong, said David Webb, a shareholder activist in the city.

“The SFC will need to show that he knew what he was saying was false or was reckless or negligent,” Mr. Webb said.

In the meantime, the regulator’s move may have a chilling effect on short sellers or publishers of independent research that is critical of companies, Mr. Webb added.

At the time of the Citron report, research analysts at several brokerage firms defended Evergrande, and the company itself released a statement highlighting its backing from banks. In a statement released in June 2012 titled “Eight Famous Investment Banks Support Evergrande to Dispel Rumors Spread by A Short Seller,” Evergrande said the efforts by these firms helped stabilize its stock and restore market confidence.

The move by the SFC comes as the regulator beefs up its investigations staff and

pursues cases against brokers and investors involved in insider trading. The watchdog has also rolled out a new listing regime, which holds underwriters of new share offerings criminally liable in the event they knowingly mislead investors.

Guangzhou-based Evergrande owns a successful soccer team and has recently been diversifying beyond real estate. In November, it bought a stake in a Hong Kong-based magazine publisher, adding to interests in solar energy and bottled water. Analysts, including Moody's Investors Service, have flagged concerns about the property developer's high debt levels and a large inventory of apartments.

In August, the company said net profit rose 46% to 9.49 billion yuan (US\$1.53 billion) in the six months to the end of June compared with the same period a year earlier.

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